

# Quarterly Review of Investment Strategy

Bernalillo County, NM



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Bernalillo County Investment Committee

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## Investment Priorities

# Investment Priorities

Our investment objectives and philosophy are constant with all of our clients:

-  ***Safety is primary objective***
-  Transparency
-  Compliance
-  Liquidity
-  Yield

# Investment Objectives

- Ladder investments to best match cash flows and cash needs – smooth ladder
- Comply with investment policy, including the liquidity requirement, which says that funds equal to 15% of budget should mature within 30 days -- \$79 million
- Maintain conservative portfolio parameters set-up after the County's liquidity crisis of 2013
- Stay abreast with current market conditions to best manage market and interest rate risk
- Maintain a high level of communication between departments to facilitate optimal investment strategy

## Investment Strategy – Last Quarter

## Fiscal Year 2016 – Previous Quarter Strategy\*

### Operating Funds Portfolio

- The upward shift in interest rates at the front end of the yield curve introduces an opportunity to move investment dollars out of bank deposits and into US Treasury and Agency securities for a better yield.
- Currently, the duration of the Operating Funds portfolio that is invested is well short of the benchmark, while the yield in line with the benchmark at 0.588%. When bank deposits are included in the portfolio calculation, the yield on the portfolio drops to 0.247%.
- The County cash flow projection shows an estimated \$77 million of taxes collected that will not be distributed to other taxing entities. Of that \$77 million, \$5 million has been invested in a two-year Agency bullet security at a book yield of 1.116%.
- The Investment Working Group will continue to review opportunities to invest the cash, build the investment ladder and improve portfolio performance.
- Public Trust will execute on decisions made by the group after receiving the two signatures required for any trade, per the investment procedures.

## Fiscal Year 2016 – Previous Quarter Strategy\*

### Bond Proceeds Portfolio

- The Bernalillo County Bond Proceeds portfolio was created as of July 1, 2015.
- This portfolio strategy is to structure investment maturities to meet the cash needs of the capital projects currently underway.
- The portfolio is invested in a smooth ladder of securities with \$1.5 million maturing each month to fund project draws.
- A new cash flow projection has been created by the Accounting and Budget office, specifically for the Bond Proceeds portfolio.
- The Investment Working Group continues to assess the optimal monthly maturity level to best meet the needs of the County.
- Currently, none of the funds that have matured are being reinvested, as they are needed for project expenditures and land acquisition costs.



## Review of Current Portfolio and Markets

# Bernalillo County Operating Funds Portfolio – March 31, 2015

Report: Executive Summary  
Account: BERNALILLO COUNTY TREASURER  
As of: 3/31/2016



|  | Market Value           | Accrued | % of Total     | Book Yield    |
|--|------------------------|---------|----------------|---------------|
| <b>Summary of Investment Funds:</b>  |                        |         |                |               |
| US Treasury Securities   | \$5,068,101.98         |         | 28.58%         | 0.524%        |
| US Agency Securities   | \$5,112,600.00         |         | 6.64%          | 1.039%        |
| Cash Wells Fargo MMF   | \$5,071,449.98         |         | 6.62%          | 0.170%        |
| <b>Summary of Negotiated Bank Deposits:*</b>                                     |                        |         |                |               |
| Wells Fargo Savings  | \$2,113,136.13         |         |                | 0.214%        |
| First National Bank Santa Fe   | \$5,047,128.48         |         |                | 0.255%        |
| Bank of the West   | \$5,270,845.82         |         |                | 0.305%        |
| <b>Total Month-end Bank Balances</b>   | <b>\$32,431,110.43</b> |         | <b>58.16%</b>  | <b>0.260%</b> |
| <b>Total Investable Funds</b>  | <b>\$27,683,262.39</b> |         | <b>100.00%</b> | <b>0.381%</b> |
| Previous Month Total Investable Funds  | \$23,035,096.30        |         |                | 0.347%        |
| <b>*Average Monthly Bank Deposit Balances (on which returns are calculated):</b> |                        |         |                |               |
| Wells Fargo Savings  | \$5,073,000.72         |         |                |               |
| First National Bank Santa Fe   | \$5,041,982.89         |         |                |               |
| Bank of the West   | \$5,256,805.16         |         |                |               |
| <b>Total Average Bank Balances</b>   | <b>\$31,081,788.77</b> |         |                |               |

No primary issue securities were purchased. Please see trading reports attached.

Compliance:

No compliance issues for funds managed by Public Trust Advisors.

Collateral compliance is attached separately, as it is checked by the Accounting Department of the Treasurer's Office.

Note: Legacy term repurchase agreement information is filed with the collateral compliance report.

# Bernalillo County Operating Funds Portfolio



## Portfolio Overview

03/01/2016 - 03/31/2016

Bernalillo County Op Funds (40455)

Dated: 04/21/2016

| Balance Sheet               |           |       |               |
|-----------------------------|-----------|-------|---------------|
| Book Value + Accrued        |           |       | 95,175,122.79 |
| Net Unrealized Gain/Loss    |           |       | 78,701.02     |
| Market Value + Accrued      |           |       | 95,253,823.81 |
|                             |           |       |               |
| Index Comparison Summary    |           |       |               |
| Risk Metric                 | Portfolio | Index | Difference    |
| Duration                    | 0.672     | 0.915 | -0.243        |
| Yield                       | 0.47      | 0.56  | -0.09         |
| Years to Effective Maturity | 0.679     | 0.921 | -0.242        |
| Years to Final Maturity     | 0.679     | 0.921 | -0.242        |
| Average Credit Rating       | AAA       | AAA   | ---           |

Fixed Income Holdings by Market Sector

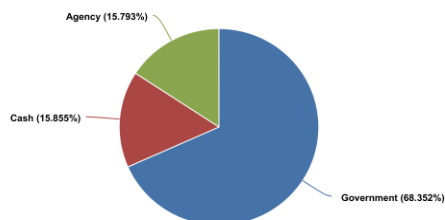


Chart calculated by: % of Book Value

Cash and Fixed Income Summary

| Risk Metric                 | Value         |
|-----------------------------|---------------|
| Cash                        | 1,671.85      |
| MMFund                      | 15,071,449.98 |
| Fixed Income                | 80,180,701.98 |
| Duration                    | 0.672         |
| Convexity                   | 0.011         |
| WAL                         | 0.679         |
| Years to Final Maturity     | 0.679         |
| Years to Effective Maturity | 0.679         |
| Yield                       | 0.47          |
| Book Yield                  | 0.55          |
| Avg Credit Rating           | AAA/Aaa/AAA   |

Index: BofA ML 1-Yr TBill.

# Bernalillo County Bond Proceeds Portfolio



## Portfolio Overview

03/01/2016 - 03/31/2016

Bernalillo County Bond Proceed (52469)

Dated: 04/21/2016

| Balance Sheet               |           |       |               |
|-----------------------------|-----------|-------|---------------|
| Book Value + Accrued        |           |       | 19,986,873.05 |
| Net Unrealized Gain/Loss    |           |       | -299.10       |
| Market Value + Accrued      |           |       | 19,986,573.95 |
|                             |           |       |               |
| Index Comparison Summary    |           |       |               |
| Risk Metric                 | Portfolio | Index | Difference    |
| Duration                    | 0.505     | 0.915 | -0.41         |
| Yield                       | 0.43      | 0.56  | -0.13         |
| Years to Effective Maturity | 0.508     | 0.921 | -0.413        |
| Years to Final Maturity     | 0.508     | 0.921 | -0.413        |
| Average Credit Rating       | AAA       | AAA   | ---           |

Fixed Income Holdings by Market Sector

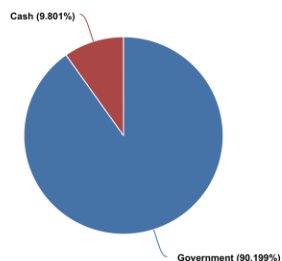


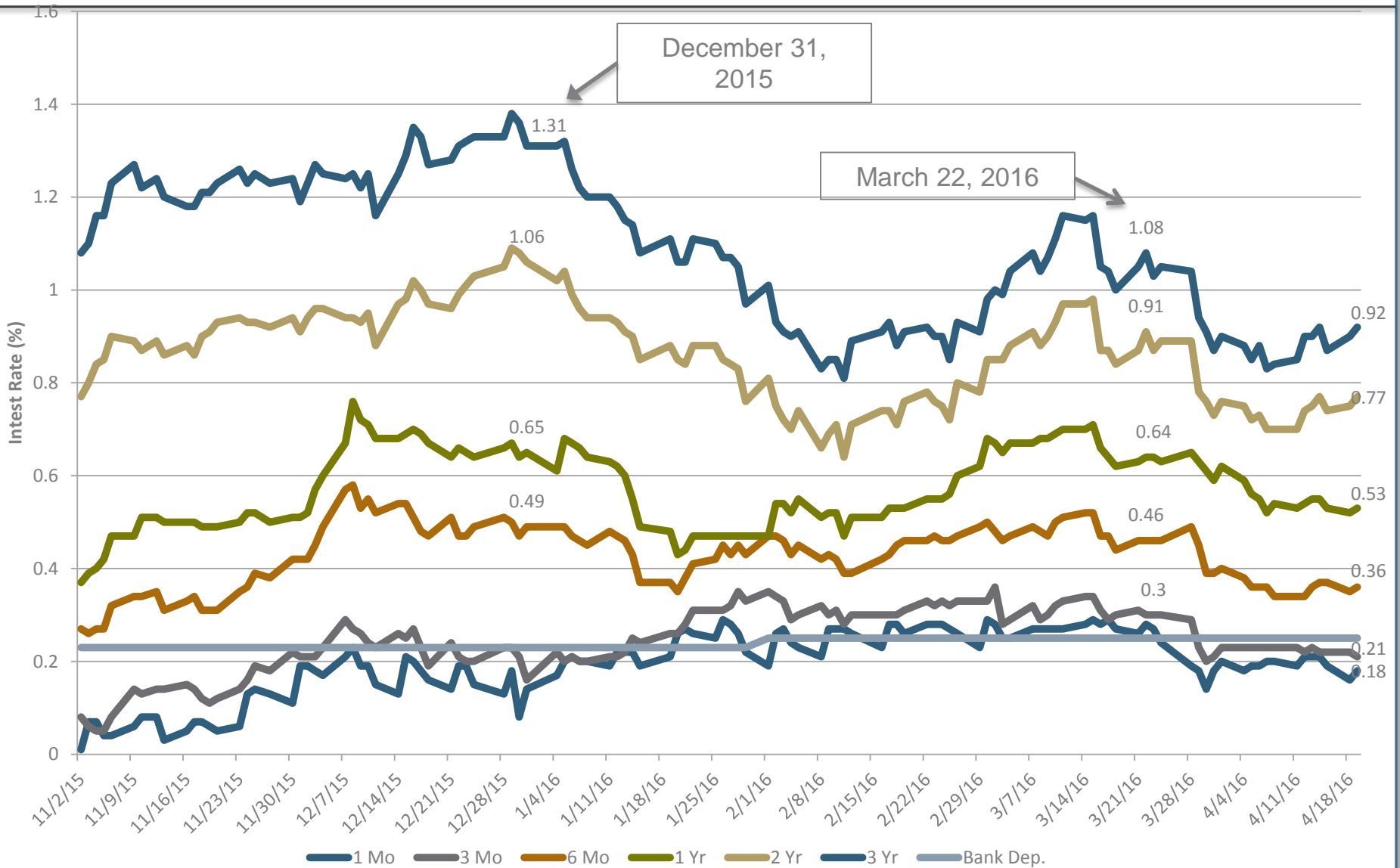
Chart calculated by: % of Book Value

Cash and Fixed Income Summary

| Risk Metric                 | Value         |
|-----------------------------|---------------|
| Cash                        | 154.94        |
| MMFund                      | 1,956,696.17  |
| Fixed Income                | 18,029,722.84 |
| Duration                    | 0.505         |
| Convexity                   | 0.006         |
| WAL                         | 0.508         |
| Years to Final Maturity     | 0.508         |
| Years to Effective Maturity | 0.508         |
| Yield                       | 0.43          |
| Book Yield                  | 0.427         |
| Avg Credit Rating           | AAA/Aaa/AAA   |

Index: BofA ML 1-Yr TBill.

# US Treasury Rates 11/1/15 to 4/19/16



## US Treasury Interest Rates – Change to Date Since Dec 31, 2015

| Treasury Sec. | 31-Dec-15 | 19-Apr-16 | Change |
|---------------|-----------|-----------|--------|
| 1 mon         | 0.14%     | 0.18%     | 0.04%  |
| 3 mon         | 0.16%     | 0.21%     | 0.05%  |
| 6 mon         | 0.49%     | 0.36%     | -0.13% |
| 1 year        | 0.65%     | 0.53%     | -0.12% |
| 2 year        | 1.06%     | 0.77%     | -0.29% |
| 3 year        | 1.31%     | 0.92%     | -0.39% |

Source: Treasury yields - United State Treasury: <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield>.

## Investment Strategy – Coming Quarter

# Investment Strategy – Operating Funds

- Interest rates have come down since the beginning of 2016.
- The focus of the working group continues to be on putting more cash to work for the County to improve investment earnings.
- There is consistently about 60% of the County's operating funds held in cash accounts (negotiated savings accounts). As of March 31, 2016, 35% of the County's operating funds would be required to be held in these accounts to satisfy the liquidity requirement in the policy.
- Working group discussions have turned to ways to make the investment process more efficient so that we can act more quickly when markets look favorable.
- The Investment Working Group will continue to review opportunities to invest the cash, build the investment ladder and improve portfolio performance.
- Public Trust will execute on decisions made by the group after receiving the two signatures required for any trade, per the investment procedures.



## Investment Strategy – Bond Proceeds

- The Bernalillo County Bond Proceeds portfolio was created as of July 1, 2015.
- This portfolio strategy is to structure investment maturities to meet the cash needs of the capital projects currently underway.
- The portfolio is invested in a smooth ladder of securities with \$1.5 million maturing each month to fund project draws.
- A new cash flow projection has been created by the Accounting and Budget office, specifically for the Bond Proceeds portfolio.
- The County recently issued debt and the bond proceeds funded on March 22, 2016.
- The Working Group is discussing new procedures regarding bond proceeds and where to deposit those proceeds, now that we have a separate Bond Proceeds investment portfolio.

# Registered Investment Advisor – Standard of Care

Per Public Trust Advisors' current scope of work for Bernalillo County, we are required to prepare a quarterly investment review and present it to the Investment Committee and the Board of Finance. As a Registered Investment Advisor (RIA) under the Securities Exchange Act of 1940, we act in a fiduciary capacity for the County.

*A fiduciary relationship is generally viewed as the highest standard of customer care available under law. Fiduciary duty includes both a duty of care and a duty of loyalty. Collectively, and generally speaking, these duties require a fiduciary to act in the best interest of the customer, and to provide full and fair disclosure of material facts and conflicts of interest.*

~ Securities Industry and Financial Markets Association (SIFMA)

SIFMA Fiduciary Standard Resource Center, <https://www.sifma.org/issues/private-client/fiduciary-standard/overview/>

# Disclosures

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The data in this presentation is unaudited.

Performance comparisons will be affected by changes in interest rates. Investment returns fluctuate due to changes in market conditions. Investment involves risk, including the possible loss of principal. No assurance can be given that the performance objectives of a given strategy will be achieved. Past performance is not an indicator of future performance or results. Any financial and/or investment decision may incur losses.

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